Committee on Ways and Means

H.R. 4279 – Ease the Burden of "Use it or Lose it" Rule for Health Flexible Spending Accounts

Cafeteria Plans and Health Flexible Spending Accounts (FSAs)

- Health FSAs are tax-free employer-sponsored benefit plans that reimburse employees for qualified health care expenses.
- Employers and employees can both contribute to FSAs on a pre-tax basis. If the employee funds the FSA, the contributions are automatically deducted from his or her paycheck.
- Amounts in the FSA can be used throughout the year to pay for medical expenses.
- However, any unused funds remaining in the FSA at the end of the year are forfeited to the employer. This "use it or lose it" rule creates a perverse incentive to quickly spend unused funds before the end of the year, leading to excess health care consumption.

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- The bill would allow up to $500 of unused funds to be (1) carried forward in the FSA for use during the next year, or (2) contributed to a Health Savings Account (HSA).
- The ability to rollover funds to the next year will encourage more employees to participate in FSAs without fear of losing the money at the end of the year.
- The FSA rollover option will reduce end-of-the-year excess spending and overuse of health care services. It will also allow FSA participants to benefit from the prudent use of their health care resources.